PAGE

BASIC EXAMINATION CONCEPTS AND GUIDELINES

1.1-1	I.	Rationale of Bank Examinations
1.1-1	II.	The Uniform Financial Institutions Rating System Introduction Performance Evaluation Composite Ratings
1.1-4	III.	Examination Priorities and Frequency Criteria Other Situations Coordination with State Authorities Coordination with Other Federal Agencies Supervision of Interstate Banking Organizations and Chain Banks Examination Intervals - Specialty Examinations
1.1-7	IV.	Scheduling Guidelines ° Information to Consider in Scheduling Examinations ° Offsite Analysis and Monitoring
1.1-10	v.	Pre-examination Activities
1.1-10	VI.	Examination Program
1.1-16	VII.	Other Sources of Examination Information and Policy Guidance
1.1-18	VIII	Disclosure of Reports of Examination
1.1-18	IX.	Examination Workpapers
1.1-19	x.	Internal Routine and Controls

CAPITAL

2.1-1	I.	Introduction
2.1-2	II.	Capital Adequacy vs. Capital Rules
2.1-2	III.	Components of Capital ° Leverage Capital ° Risk-Based Capital
2.1-3	IV.	Capital Account Adjustments
2.1-4	v.	Minimum Capital Standards
2.1-5	VI.	FDIC Statement of Policy on Capital Adequacy Banks Which are Fundamentally Sound and Well-Managed Other Banks Capital Requirements of Primary Regulator Capital Plans Written Agreements
2.1-6	VII.	Evaluation of a Bank's Capital Adequacy
2.1-10	VIII	Rating the Capital Factor
2.1-10	IX.	Increasing Capital in Operating Banks

CONTINGENT LIABILITIES

- 2.2-1 I. Introduction
- 2.2-1 II. Examination Policies
- 2.2-1 III. Potential and Estimated Losses in Contingent Liabilities
- 2.2-2 IV. Common Forms of Contingent Liabilities
 - ^o Litigation
 - ° Interest Rate Futures, Forward and Standby Contracts
 - ° Trust Activities
 - Consigned Items and Other Nonledger Control Accounts
 - ° Reserve Premium Accounts

LOANS 3.1-1 Introduction 3.1-1 Loan Administration I. Lending Policies Loan Review Systems ("Watch Lists") 3.1-2II. Portfolio Composition Commercial Loans Oil and/or Gas Reserve-Based Loans Real Estate Loans Agricultural Lending Instalment Loans Direct Lease Financing Floor Plan Loans Check Credit and Credit Card Loans Credit Card-related Merchant Activities III. Other Credit Issues 3.1-19 **Appraisals** Loan Participations Environmental Risk Program 3.1-30 IV. Loan Problems Poor Selection of Risks Overlending o Failure to Establish or Enforce Liquidation Agreements Incomplete Credit Information Overemphasis on Income Self Dealing Technical Incompetence Lack of Supervision Lack of Attention to Changing Economic Conditions Competition Potential Problem Indicators by Document 3.1-33 Loan Appraisal and Classification v. Loan Appraisal Review of Files and Records Loan Discussion Loan Analysis Loan Classification Definitions

Troubled Commercial Real Estate

- Loan Classification Guidelines
- ° Technical Exceptions
- Past Due and Nonaccrual
- Nonaccrual Loans That Have Demonstrated Sustained Contractual Performance
- ° TDR Multiple Note Structure
- Consumer Loan Analysis and Classification
- Troubled Debt Restructurings, Foreclosures and Repossessions
- Report of Examination Treatment of Classified Loans
- Allowance for Loan and Lease Losses
- ° Examiner Evaluation of the Adequacy of the ALLL
- ° Issuance of "Express Determination" Letters
- 3.1-48 VI. Concentrations
- 3.1-49 VII. Federal Funds Sold and Repurchase Agreements
- 3.1-50 VIII.Fundamental Legal Concepts and Definitions
 - Secured and Unsecured Transactions
 - Attachment, Security Agreement and Security
 Interest
 - ° Borrowing Authorization
 - Participation Agreement
 - Bond and Stock Powers
 - ° Comaker
 - ° Loan Guarantee
 - Subordination Agreement
 - ° Hypothecation Agreement
 - ° Real Estate Mortgage
 - ° Collateral Assignment
- 3.1-56 IX. Consideration of Bankruptcy Law as it Relates to Collectability of a Debt
 - ° Introduction
 - Forms of Bankruptcy Relief
 - Functions of Bankruptcy Trustees
 - Voluntary and Involuntary Bankruptcy
 - O Automatic Stay
 - o Property of the Estate
 - ° Discharge and Objections to Discharge
 - ° Reaffirmation
 - ° Classes of Creditors
 - ° Preferences
 - ° Setoffs

° Transfers Not Timely Perfected or Recorded

INVESTMENT SECURITIES

3.2-1	ī.	Investment Policies ° Quality ° Maturity ° Diversification ° Marketability ° Income
3.2-2	II.	Factors to be Considered in Appraising an Investment Policy General Character of the Bank's Business Analysis on Funding Sources Capital Funds Economic and Monetary Factors
3.2-3	III.	Portfolio Management Delegated Authority to Handle Securities Transactions Recommendations Concerning the Selection of a Securities Dealer Periodic Review and Analysis of the Portfolio Portfolio Documentation
3.2-5	IV.	Liquidity Considerations ° Primary Reserves ° Secondary Reserves ° Investment Account
3.2-6	v.	Analysis of Municipal Bonds
3.2-7	VI.	Appraisal and Classification of Securities ° Investment Quality Securities ° Subinvestment Quality Securities ° Stocks
3.2-9	VII.	Other Securities Activities Mutual Funds Leeway Securities Repurchase Agreements Dollar Repurchase Agreements Specified Mortgage Pools

Coupon Stripping

- 3.2-14 VII. Estimated Market Value
- 3.2-16 IX. Accounting
 - Premium Amortization and Discount Accretion
 - ° FASB Statement No. 115
 - Trading Account Securities
 - Securities Purchased or Sold Under Repurchase Agreement or Similar Transactions
- 3.2-17 X. Audit
 - ° Invoices
 - Purchases and Sales
 - ° Settlement Practices
 - Mortgage-Backed and Other Related Securities

CASH AND DUE FROM BANKS

- 3.3-1 I. Types of Accounts
 - ° Cash
 - $^{\circ}$ Clearings
 - ° Cash Items
 - Due from Banks Demand Balances
 - Due from Banks Time Balances
- 3.3-3 II. Examination Objectives
 - ° Primary Reserves
 - ° Internal Control
 - Policies and Procedures on Interbank Liabilities
 - ° Concentrations
 - ° Compensating Balances

PREMISES AND EQUIPMENT

- 3.4-1 I. Definitions
- 3.4-1 II. Fixed Assets Accounting
 - ° Fixed Assets Owned
 - ° Fixed Assets Leased
 - ° Sale-Leaseback Transactions
- 3.4-3 III. Extent of Fixed Assets Investment

3.4-3	IV.	Analysis of Fixed Assets			
		Depreciation Costs as the Basis of AppraisalOverinvestment			

3.4-4 V. Fire and Extended Coverage on Bank Premises, Furniture and Equipment

OTHER REAL ESTATE

- 3.5-1 I. Other Real Estate
 - ° Book Value
 - Financed Sales of Other Real Estate
 - Appraisal and Classification
- 3.5-3 II. Other Real Estate Reserves
 - $^{\circ}$ Classification Treatment of Reserves

OTHER ASSETS

- 3.6-1 I. Introduction
- 3.6-1 II. Prepaid Expenses
- 3.6-1 III. Accrued Income Accounts
- 3.6-1 IV. Acceptances
- 3.6-1 V. Mortgage Servicing Rights
 - ° Accounting
 - ° Other Transactions
 - ° Valuation
 - Servicing Risk
 - Examination Procedures
- 3.6-4 VI. All Other Assets
 - Suspense Accounts
 - Cash Items Not in Process of Collection
 - ° Future Tax Benefits
 - ° All Other Assets
 - ° Life Insurance Policies

OFF-BALANCE SHEET LENDING ACTIVITIES

- 3.7-1 I. Introduction
- 3.7-1 II. Adversely Classified Contingent Liabilities
- 3.7-2 III. Types of Off-Balance Sheet Lending
 - ° Standby Letters of Credit
 - ° Loan Commitments
 - Revolving Underwriting Facilities
 - ° Bankers Acceptances
 - Loans Sold Without Recourse

MANAGEMENT SUPERVISION, ADMINISTRATION AND CONTROL

- 4.1-1 I. Introduction
- 4.1-1 II. Directors
 - Selection and Qualifications of Directors
 - Powers, Duties and Responsibilities of Directors
 - ° Supervision by Directors
 - Legal Liabilities of Directors
- 4.1-7 III. Federal Banking Laws and Regulations Primarily Pertaining to Bank Directors
- 4.1-9 IV. Other Issues
 - ° Indebtedness of Directors, Officers and Their Interests
 - ° Conflicts of Interest
 - Nonbanking Activities Conducted on Bank Premises
 - Directors of "One Man Banks" and Advisory Directors
- 4.1-12 V. Appraisal of Management
 - Uniform Interagency Bank Rating System
- 4.1-13 VI. Meetings with Bank Directors

INTERNAL ROUTINE AND CONTROLS

- 4.2-1 I. Introduction
- 4.2-1 II. Basic Elements of an Internal Control System
 - ° Organizational Structure
 - Accounting Procedures
 - Protection of Physical Assets
- 4.2-5 III. Audit
 - ° External Audit
 - ° Communication with External Auditors
 - ° Internal Audit
 - Part 363 of the FDIC Rules and Regulations
 - One of the control of the control
 - ° Mergers

- Examination Procedures Part 363
- Workpaper Review Procedures
- Complaints Against Accountants
- Specific Review of Audit Systems and Reports
- Oirect Verification
- 4.2-15 IV. The Examiner's Responsibilities
 - ° Overall Evaluation of Internal Controls
 - Standard Examination Procedures
 - Recommendations to Management or the Board of Directors
 - Fraud and Insider Abuse
 - $^\circ$ Possible Audit Techniques
- 4.2-22 V. Information Systems
 - Management Information Systems
 - Wire Transfers Examination Procedures
- 4.2-24 VI. Other Related Matters
 - Lost and Stolen Securities Program (SEC Rule 17f1)
 - ° Improper and Illegal Payments by Banks and Bank Holding Companies

RELATED ORGANIZATIONS

- 4.3-1 I. Introduction
- 4.3-1 II. Bank Holding Companies
 - ° Definition of Control
 - Control Not Covered by the BHC Act
 - Acquisition of Bank Shares
 - Nonbank Activities of Bank Holding Companies
 - Grandfathered Nonbank Banks
 - Holding Company Affiliation Effect on Subsidiary Banks
- 4.3-7 III. Tying Arrangements
 - Prohibition of Preferential Loans
- 4.3-8 IV. Chain Banking Groups
- 4.3-9 V. Affiliates
 - Affiliates as Defined in Section 2(b) of the Banking Act of 1933

- Section 23A of the Federal Reserve Act
- ° Affiliates as Defined in Section 23A of the Federal Reserve Act
- ° Restrictions on "Covered Transactions" with Affiliates
- ° Collateral Requirements
- Grandfathered Transactions
- $^{\circ}$ Section 23B of the Federal Reserve Act

4.3-15 VI. Subsidiaries

- ° Bank Service Corporation
- ° Safe Deposit Corporation
- Corporation Holding Title to Bank Premises
- ° Securities Firm
- ° Small Business Investment Companies (SBIC)
- Agricultural Credit Corporation (ACC)
- Special Purpose Finance Subsidiaries
- ° Corporations Engaged in International Banking Activities
- Mortgage Banking Subsidiaries
- Insurance Subsidiaries

4.3-18 VII. Examination Authority

4.3-18 VIII. Examination of Subsidiaries

FIDELITY AND OTHER INDEMNITY PROTECTION

4.4-1 I. Introduction

4.4-1 II. Fidelity Insurance Protection

- Providing Examination Information to an Insurance Carrier
- ° Protection from Both External and Internal Hazards
- Bankers Blanket Bond Insurance
- Scope of Blanket Bond Insurance
- Factors to Consider in Determining Adequate Amount of Blanket Bond Insurance
- $^\circ$ Basis for Claims Under the Bankers Blanket Bond
- Electronic Data Processing Coverage
- Blanket Bond Riders
- Excess Employee Fidelity Coverage
- ° Other Specialized Bank Insurance

- 4.4-6 III. Other Desirable Insurance Coverage
 - ° Liability Insurance
 - ° Fixed Assets Physical Damage
 - ° Lending Activities
 - Mortgage Lending Activity
 - ° Instalment Lending Activity
 - ° Personnel Administration
 - ° Keyman Insurance
 - ° Employee Benefit Insurance

VIOLATIONS OF LAWS AND REGULATIONS

- 4.5-1 Introduction
- 4.5-1 I. Basic Causes and Significance of Violations
 - ° Causes
 - ° Significance
- 4.5-1 II. Scheduling Violations
- 4.5-2 III. Types of Violations
 - Nonconforming Assets Held
 - ° All Other Violations
- 4.5-4 IV. Contraventions of FDIC Statements of Policy
- 4.5-4 V. Violations and the Evaluations of Bank Management

BANK EARNINGS

- 5.1-1 I. Introduction
- 5.1-1 II. Analysis of Bank Earnings
 - Level and Trend of Earnings
 - ° Analysis Trails
- 5.1-7 III. Quality of Bank Earnings
- 5.1-7 IV. Profit Plans and Budgets
- 5.1-8 V. Rating Bank Earnings

RATE SENSITIVITY ANALYSIS

- 5.2-1 I. Introduction
- 5.2-1 II. Interest Rate Risk Management
- 5.2-1 III. Interest Rate Risk Management Committee
- 5.2-2 IV. Policies and Procedures
- 5.2-3 V. Strategy
- 5.2-4 VI. Measurement Systems
 - Gap Analysis
 - Duration Analysis
 - $^\circ$ Simulation Model Analysis
 - Examiner Review of IRR Measurement Systems
 - Evaluation of the Interest Rate Exposure

HEDGING AND DERIVATIVE INSTRUMENTS

- 5.3-1 I. Hedging
- 5.3-1 II. Financial Derivatives
 - ° The Market
 - ° The Products
 - $^{\circ}$ The Seven Risks
 - Supervisory Policy
 - Examination Report Treatment

- 5.3-9 III. Interest Rate Swaps
- 5.3-11 IV. Interest Rate Caps and Floors
- 5.3-13 V. Interest Rate Forward and Futures Contracts
- 5.3-16 VI. Interest Rate Options
- 5.3-19 VII. Forward Rate Agreements
- 5.3-21 VIII.Long-Term Standby Contracts
- 5.3-21 IX. Spreading Transactions
- 5.3-22 X. Optioned Equities
- 5.3-23 XI. Securities Sales Subject to Put Option
- 5.3-24 XII. Structured Notes

MORTGAGE DERIVATIVE PRODUCTS

- 5.4-1 I. Introduction
- 5.4-2 II. Supervisory Treatment
- 5.4-7 III. Supervisory Policy for Mortgage Derivative Products

LIQUIDITY AND FUNDS MANAGEMENT

- 6.1-1 I. Introduction
- 6.1-1 II. Liquidity
- 6.1-1 III. Asset Management
- 6.1-2 IV. Liability Management
- 6.1-3 V. Funds Management Policies and Management Reporting Systems
 - Management Reporting System
- 6.1-5 VI. Bank Holding Companies

6.1-6 VII. Examination Report Treatment of Liquidity and Funds Management.

FUNDING SOURCES AND OTHER LIABILITIES

- 6.2-1 I. Introduction
- 6.2-1 II. Funding Sources
 - ° Borrowings
 - Omestic Borrowings
 - ° International Funding Sources
- 6.2-4 III. Deposit Management Program
- 6.2-5 IV. Safety and Soundness Considerations
 - ° Public Funds
 - ° Large Depositors
 - $^{\circ}$ Negotiable Certificates of Deposit
 - ° Brokered Deposits
 - Bank Investment Contracts
 - Secured and Preferred Deposits
 - Remote Disbursement Activities and Zero-Balance Accounts
 - Funds Transfer System Risk
- 6.2-10 V. All Other Liabilities
 - Mortgages Payable
 - ° Capital Leases Outstanding
 - Accrued Taxes and Expenses
 - Bankers Acceptances
 - ° All Other Liabilities

INTERNATIONAL BANKING

7.1-1	I.	Introduction ° Examination Objectives
7.1-2	II.	International Lending Bank Activity Profitability International Risk Forms of International Lending International Lending International Lending
7.1-8	III.	Country Risk Introduction Concept of Country Risk Interagency Approach Country Risk Exposure Report
7.1-13	IV.	Foreign Exchange Foreign Exchange Market Exchange Rates Spot and Forward Exchange Swaps Arbitrage Foreign Exchange Risk Examination Objectives FDIC Policy
7.1-17	v.	Cable Department
7.1-18	VI.	Other International Department Activities Cash Accounts Due-From or Nostro Accounts Investments Due-From Time Deposits Borrowings
7.1-20	VII.	Laws and Regulations ° Foreign Branches, Subsidiaries, Edge Corporations and International Banking Facilities ° Restrictive Trade Practices ° Foreign Corrupt Practices Act
7.1-21	VIII	Glossary of International Banking Terminology

APPLICATIONS

8.1-1	I.	Applications for Deposit Insurance Introduction Rights of Applicants Obligations of the FDIC Examiner's Responsibility Statutory Factors, Proposed or Newly Organized Institutions Statutory Factors, Existing Institutions
8.1-11	II.	Applications to Establish a Branch or to Move Main Office or Branch Provisions of Law Changing Location Versus Establishing a Branch Branch Procedures Recommendations by Examiners Factors Under Section 6 - De Novo Branches and Relocations
8.1-14	III.	Applications for Consent to Exercise Trust Powers Tntroduction Administering Trust Applications Additional Information
8.1-15	IV.	Change in Bank Control Act ° Introduction ° Provisions of Law ° Procedures
8.1-18	v.	Applications for Retirement of Capital ° Introduction ° Capital Notes and Debentures
8.1-18	VI.	Applications for Mergers Throduction Provisions of Law Statement of Policy - Bank Merger Transactions Procedures
8.1-20	VII.	Applications by Under capitalized Depository Institutions to Accept, Renew or Rollover Brokered Deposits
8.1-21	VIII	.Policy Statement on Encouragement and Preservation of Minority Ownership of Financial Institutions

CRIMINAL VIOLATIONS

8.2-1	I.	Introduction Criminal Conduct Undermines Public Confidence Bank Management is Responsible for Preventing and Detecting Fraud and Insider Abuse The Examiner's Role Disclosure of Confidential Information to Law Enforcement Authorities
8.2-2	II.	Interagency Cooperation Criminal Referrals Assistance of the Fraud Section Communication and Points of Contact Parallel Proceedings
8.2-3	III.	Criminal Statutes Principal Criminal Statutes Relative to FDIC Insured Banks Other Criminal Statutes Imprpoper and Illegal Payments by Banks
8.2-7	IV.	Criminal Referrals Reporting by Examiners Notifying the Bank's Board of Directors Reporting Promptly to Law Enforcement Officials Preparing and Filing the Interagency Criminal Referral Form Right to Financial Privacy Act Exception for FDIC-Prepared Referrals Right to Financial Privacy Act Restrictions on Bank-Prepared Referrals
8.2-10	v.	Examiner Assistance to Federal Law Enforcement Authorities
8.2-10	VI.	Federal Grand Jury Subpoenas
8.2-11	VII.	Safeguarding and Documenting Evidence
8.2-12	VIII	.Notification to the Bonding Company
8.2-12	IX.	Other Matters of Importance

BANK FRAUD AND INSIDER ABUSE

- 8.3-1 I. Introduction
- 8.3-1 II. Subject Areas
 - Corporate Culture/Ethics
 - ° Insider transactions
 - ° Loan Participations
 - Real Estate Lending
 - Secured Lending
 - ° Third Party Obligations
 - Lending to Buy Tax Shelter Investments
 - Linked Financing/Brokered Deposits
 - ° Credit Cards and ATM Transactions
 - Advance Fee Schemes
 - ° Offshore Transactions
 - ° Wire Transfers
 - Money Laundering
 - Securities Trading Activities

MEMORANDUMS OF UNDERSTANDING

9.1-1 Introduction

CIVIL MONEY PENALTIES

- 9.2-1 I. Introduction
- 9.2-1 II. Violations
- 9.2-1 III. Assessment of Civil Money Penalties
 ° Penalties
- 9.2-4 IV. Examination Procedures
- 9.2-5 V. Other Considerations
- 9.2-6 CMP Matrix

FORMAL ADMINISTRATIVE ACTIONS

- 9.3-1 I. Introduction
- 9.3-1 II. Reports of Examination Containing a Basis for Section 8 Charges.
- 9.3-3 III. Unsafe or Unsound Practices
 - General
 - Practices Deemed "Unsafe or Unsound"
 - $^\circ$ Lack of Action Deemed "Unsafe or Unsound"
 - Actions Deemed "Unsafe or Unsound"
 - Conditions Considered "Unsafe or Unsound"
 - Violations of Law, Regulation, Condition, Or Order
 - ° Corrective Actions
- 9.3-6 IV. Section 8(a) Termination of Insurance
 - General
 - $^{\circ}$ Outline of Section 8(a) and FDIC Procedures
 - ° Hearing
 - Basis for Section 8(a) Action
- 9.3-8 V. Cease and Desist Proceedings

- ° General
- ° Section 8(b) Cease and Desist Proceedings
- Section 8(c) Temporary Cease and Desist Proceedings
- 9.3-11 VI. Suspension and Removal Procedures
 - ° Section 8(e)
 - ° Section 8(g)
- 9.3-13 VII. Use of Written Agreements and Capital Directives
 - Written Agreements
 - ° Capital Directives
- 9.3-14 VIII.Prompt Corrective Action Directive
- 9.3-15 IX. Capital Plans

BANK OF ANYTOWN

INSTRUCTIONS FOR THE PREPARATION OF THE REPORT OF EXAMINATION FOR COMMERCIAL BANKS

- 10.1-1 I. Preface
- 10.1-4 II. Inventory of Report Pages
- 10.1-5 III. General Instructions
 - ° References
 - Ratios
 - ° Rounding
 - ° Miscellaneous
 - ° Consolidation
 - Bank Only Report Schedules
 - Specifically Allocated Reserves
 - ° Abbreviations
 - ° Other
- 10.1-52 IV. International Report of Examination Pages